CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 8, 2004

S. 1072

Safe, Accountable, Flexible, and Efficient Transportation Equity Act of 2004

As passed by the Senate on February 12, 2004

SUMMARY

CBO estimates that implementing S. 1072 would cost $193.9 billion over the 2004-2009 period, assuming appropriation action consistent with the act. In addition, CBO and the Joint Committee on Taxation (JCT) estimate that enacting S. 1072 would increase direct spending by $2.6 billion and increase revenues by $45.5 billion over the 2004-2014 period. (Over the 2004-2009 period, new direct spending would total $1.5 billion and new revenues would total $18.2 billion.) Most of the new direct spending would stem from: (1) increased federal Medicaid costs for vaccine purchases; (2) direct funding for new efforts to combat tax evasion; and (3) payments in lieu of tax credits for certain producers of alcohol and biodiesel fuel mixtures.

S. 1072 would extend the authority for the surface transportation programs administered by the Federal Highway Administration (FHWA), the National Highway Traffic Safety Administration (NHTSA), the Federal Motor Carrier Safety Administration (FMCSA), and the Federal Transit Administration (FTA). For those programs, CBO estimates the act would provide about $307.4 billion in contract authority (the authority to incur obligations in advance of appropriations) over the 2004-2009 period. S. 1072 also would authorize the appropriation of almost $12 billion for those programs over the same period.

Consistent with the Balanced Budget and Emergency Deficit Control Act, CBO assumes that the contract authority for the surface transportation programs would continue at the same rate provided immediately before the authority for the programs would expire in 2010. Hence, this estimate includes an additional $18.8 billion in contract authority in each year over the 2010-2014 period.

The amounts of new spending on the highway, safety, and transit programs under the act would add to outlays expected from funding previously provided. In total, CBO estimates that discretionary outlays would sum to about $280 billion over the 2004-2009 period for the affected transportation programs. As a result, such discretionary spending for those programs would average about $46.7 billion a year over the 2004-2009 period. (By comparison, outlays for those programs totaled $38.3 billion in 2003.)

S. 1072 would authorize the appropriation of $13.6 billion for rail transportation programs, $146 million to improve the transportation of hazardous materials, and $1.8 billion for the enforcement of tax laws over the 2004-2009 period. The act also would require the government to conduct background checks on certain truck drivers, extend the authority of the Internal Revenue Service (IRS) to spend certain user fees, and require the government to complete several studies and regulations on transportation issues and other matters.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1072 is summarized in Table 1. The costs of this legislation fall primarily within budget function 400 (transportation).

TABLE 1. SUMMARY OF ESTIMATED BUDGETARY EFFECTS OF S. 1072

	By Fiscal Year, in Millions of Dollars					
	2004	2005	2006	2007	2008	2009
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Estimated Authorization Level	2,340	5,087	5,177	4,922	5,086	4,914
Estimated Outlays	1,149	15,198	34,337	43,298	47,624	52,268
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	3,371	5,668	7,380	8,445	11,382	18,702
Estimated Outlays	133	269	270	267	271	279
CHANGES IN REVENUES						
Estimated Revenues	1,073	3,028	3,495	3,403	3,555	3,635

BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 1072 will be enacted by April 30, 2004, when current authority for most surface transportation programs expires. We also assume appropriation action consistent with the authorization levels and obligation limitations in the act. Estimates of outlays are based on historical spending patterns for each program. CBO estimates that implementing S. 1072 would cost $193.9 billion over the 2004-2009 period. In addition, JCT and CBO estimate that enacting S. 1072 would increase direct spending by $2.6 billion and increase revenues by $45.5 billion over the 2004-2014 period.

Spending Subject to Appropriation

Assuming appropriation action consistent with the authorization levels and obligation limitations specified in the act and assuming the appropriation of amounts necessary to cover the background checks, studies, and regulations the act would require, CBO estimates that implementing S. 1072 would cost $193.9 billion over the 2004-2009 period (as detailed in Table 2). CBO estimates that the act would authorize the appropriation of $27.5 billion and we assume the enactment of obligation limitations (for use of contract authority) totaling $286.9 billion over that period. Thus, discretionary funding resources would total $314.4 billion over the six years.

TABLE 2. ESTIMATED CHANGES IN SPENDING SUBJECT TO APPROPRIATION FOR S. 1072

	By Fiscal Year, in Millions of Dollars					
	2004	2005	2006	2007	2008	2009
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Federal-Aid Highway Program						
Authorization Level[a]	424	449	464	474	484	499
Estimated Outlays	113	10,455	26,455	33,554	36,275	39,398
RABA[b] Adjustment to the Federal-Aid Highway Program						
Estimated Authorization Level[a]	0	0	0	0	0	0
Estimated Outlays	0	0	12	-168	-381	-379
Highway Traffic and Motor Carrier Safety Programs						
Authorization Level[a]	132	138	138	139	142	145
Estimated Outlays	208	694	1,151	1,189	1,264	1,307

Continued

TABLE 2. ESTIMATED CHANGES IN SPENDING SUBJECT TO APPROPRIATION FOR S. 1072 Continued

	By Fiscal Year, in Millions of Dollars					
	2004	2005	2006	2007	2008	2009
CHANGES IN SPENDING SUBJECT TO APPROPRIATION (Continued)						
Transit Programs						
Authorization Level[a]	0	1,461	1,535	1,622	1,772	1,931
Estimated Outlays	0	1,298	3,958	5,896	7,568	9,182
Rail Transportation Programs						
Authorization Level	1,482	2,700	2,700	2,350	2,350	2,000
Estimated Outlays	782	2,420	2,420	2,490	2,560	2,420
Hazmat Safety Program						
Authorization Level	0	27	29	30	30	30
Estimated Outlays	0	22	29	30	30	30
Tax Enforcement						
Authorization Level	300	300	300	300	300	300
Estimated Outlays	46	297	300	300	300	300
Motor Carrier Background Searches						
Estimated Authorization Level	0	3	3	3	3	3
Estimated Outlays	0	3	3	3	3	3
Spending of IRS User Fees						
Estimated Authorization Level	0	3	3	4	4	4
Estimated Outlays	0	3	3	4	4	4
Studies and Regulations						
Estimated Authorization Level	2	6	6	1	1	2
Estimated Outlays	0	7	6	1	1	2
Total Changes						
Estimated Authorization Level	2,340	5,087	5,177	4,922	5,086	4,914
Estimated Outlays	1,149	15,198	34,337	43,298	47,624	52,268

a. Under current law, most budget authority for the Federal-Aid Highway program, highway traffic and motor carrier safety programs, and transit programs is provided as contract authority, a mandatory form of budget authority. Outlays from those programs, however, are subject to obligation limitations contained in appropriation acts and are therefore discretionary. S. 1072 would provide contract authority for each of those programs and also would authorize the appropriation of discretionary funds for those programs as well. For this estimate, CBO assumes that obligation limitations will continue to control most spending from those programs.

b. RABA stands for Revenue-Aligned Budget Authority.

Federal-Aid Highway Program. S. 1072 would provide $254.5 billion of contract authority and authorize the appropriation of another $2.8 billion of budget authority for the Federal-Aid Highway program over the 2004-2009 period. Under current law, most spending from contract authority provided for the Federal-Aid Highway program is considered discretionary because it is controlled by annual limitations on obligations set in appropriation acts. For this estimate, CBO assumes appropriation action will continue to limit most spending from the program. Assuming appropriation action consistent with the authorization levels and the obligation limitations specified in the act, CBO estimates that implementing those provisions would cost $146.2 billion over the 2004-2009 period. Discretionary outlays for the Federal-Aid Highway program totaled $30.2 billion in 2003 and averaged about $25.9 billion over the 1998-2003 period (the time frame covered by the last major highway authorization act). Under S. 1072, CBO estimates that discretionary spending for highways would average almost $36 billion a year over the 2004-2009 period (including outlays from funding previously provided).

RABA Adjustment to the Federal-Aid Highway Program. S. 1072 includes provisions known as Revenue-Aligned Budget Authority, or RABA, that would make annual adjustments to the obligation limitations and the level of contract authority specified in the act based on receipts to the highway account of the Highway Trust Fund. S. 1072 includes estimates of receipts to the highway account, and each adjustment under the act's RABA provisions would be determined by comparing the estimates in the legislation to the Administration's most recent estimates when the adjustment occurs. If the act's estimates of revenues are lower than the current estimates, there would be an automatic increase in the obligation limitations authorized by the act. If, however, the act's estimates of revenues are greater than the current estimates, then there would be an automatic decrease to the obligation limitation authorized by the act. For example, RABA adjustments for 1999 through 2002 increased spending authority for highways by $9.2 billion. However, a RABA adjustment that called for a $4.4 billion decrease in the 2003 obligation limitation was not allowed to occur. Instead, the Congress held funding near the level in the previous year.

Based on CBO's and JCT's estimates of receipts to the highway account under S. 1072, and assuming appropriation action consistent with the adjustments required by those provisions, CBO estimates the RABA provisions would raise the obligation limitation for 2006 by $46 million and lower the obligation limitations for the 2007-2009 period by $1.5 billion. Assuming appropriation action consistent with those RABA adjustments, CBO estimates that the RABA provisions would lower spending from the Federal-Aid Highway program by $914 million over the 2004-2009 period. Actual RABA adjustments under S. 1072 could be much higher or lower in any given year, depending on fluctuations in highway tax receipts and depending on whether the Congress allows any such adjustments to stand.

Highway Traffic and Motor Carrier Safety Programs. S. 1072 would provide $6.6 billion in contract authority and authorize the appropriation of another $837 million in discretionary budget authority for highway traffic and motor carrier safety programs over the 2004-2009 period. The Departments of Transportation and Treasury and Independent Agencies Appropriations Act, 2004 (the 2004 transportation appropriations act), provided $3 million in budget authority; consequently, S. 1072 would authorize the appropriation of an additional $834 million over the 2004-2009 period.

Under current law, spending from contract authority provided for highway traffic and motor carrier safety programs is considered discretionary because it is controlled by annual limitations on obligations set in appropriation acts. For this estimate, CBO assumes appropriation action will continue to limit spending on those programs. We estimate that implementing those provisions of the act would cost about $5.8 billion over the 2004-2009 period. Outlays for those programs totaled $527 million in 2003.

Transit Programs. S. 1072 would provide $46.7 billion in contract authority and authorize the appropriation of another $9.8 billion in discretionary budget authority over the 2004-2009 period for transit programs. The 2004 transportation appropriations act provided the $1.5 billion of discretionary budget authority that S. 1072 would authorize for the current year. As a result, S. 1072 would authorize the appropriation of $8.3 billion in additional budget authority for transit programs over the 2004-2009 period.

Under current law, all spending on transit programs is considered discretionary because it is controlled by annual limitations on obligation set in appropriation acts. Assuming that appropriation action will continue to limit spending on those programs, we estimate that implementing those provisions would cost $27.9 billion over the 2004-2009 period. When combined with outlays from previously approved funding, transit outlays would average about $9.7 billion a year over the 2004-2009 period. By comparison, transit outlays totaled $7.6 billion in 2003.

Rail Transportation Programs. S. 1072 would authorize the appropriation of $14.8 billion over the 2004-2009 period for rail transportation programs; however, the 2004 transportation appropriations act provided $1.2 billion of this total amount. As a result, S. 1072 would authorize the appropriation of $13.6 billion in additional budget authority over the 2004-2009 period. Based on historical spending patterns for rail transportation programs, CBO estimates that implementing this provision would cost $13.1 billion over the same period.

Hazmat Safety Program. S. 1072 would authorize the appropriation of about $171 million for hazmat (hazardous materials) safety programs over the 2004-2009 period; however, the 2004 transportation appropriations act provided more than the amount S. 1072 would authorize for the current year. On balance, S. 1072 would authorize the appropriation of $146 million in additional budget authority over the 2004-2009 period. Based on historical spending patterns for those programs, CBO estimates implementing this provision would cost $140 million through 2009.

Tax Enforcement. S. 1072 would authorize the appropriation of $300 million each year beginning in fiscal year 2004 for the IRS to enforce tax laws and combat transactions designed to avoid tax payments, including tax shelters and offshore accounts. Assuming appropriation of the specified amounts, CBO estimates that implementing this provision would cost about $1.5 billion over the 2004-2009 period.

Motor Carrier Background Searches. S. 1072 would require the federal government to conduct background checks on motor carrier operators that are based in another country but transport hazardous materials within the United States. Based on information from the Department of Transportation (DOT), the Federal Bureau of Investigation, the Canadian government, and industry associations, CBO estimates that each background check would cost about $100 and that around 25,000 motor carriers would require background checks each year. CBO estimates that implementing this requirement would cost $3 million each year beginning in fiscal year 2005.

Spending of IRS User Fees. S. 1072 would extend the authority of the IRS to charge taxpayers fees for certain rulings, opinion letters, and determinations through fiscal year 2013. The act also would authorize the IRS to spend a portion of the fees collected, subject to appropriation. Based on the historical levels of fees spent, CBO estimates that implementing this provision would cost $18 million over the 2004-2009 period. (The collection of $396 million in added user fees over the 2005-2014 period would be recorded in the budget as additional revenues.)

Studies and Regulations. S. 1072 would require the government to complete several studies and regulations on variety of transportation issues. The act would authorize the appropriation of $1 million for the Delta Regional Commission to study the transportation needs of certain states in the Mississippi delta. In several other studies, S. 1072 would require the government to:

- Assess the condition of the nation's surface transportation system,
- Improve the methodology for measuring air particles,
- Conduct periodic evaluations of state programs to improve highway safety,
- Determine the benefits to the public from certain rail projects,
- Assess the impact of federal laws and regulations on people who decide against transporting hazardous materials,

- Consider alternatives for raising receipts to the Highway Trust Fund,
- Study the use of motor fuels by trucks that is not used for the propulsion of the vehicle,
- Conduct a cost-benefit analysis of providing a tax credit for biodiesel fuels,
- Identify any energy savings or environmental benefits from using recovered mineral components in cement, and
- Establish criteria for the safe use of granular mine tailings from the Tark Creek Oklahoma Mining District in transportation projects and other projects that require concrete.

The act also would require the government to complete regulations to reduce worker injury rates and traffic flow during road construction, to improve the management of air quality data during disasters, and to implement any recommendations from the study to identify the benefits of using recovered mineral components in concrete. Assuming appropriation of the authorized amount and additional amounts necessary to complete the studies and regulations, CBO estimates that implementing those provisions of the act would cost $17 million over the 2004-2009 period.

Direct Spending

S. 1072 would affect direct spending by providing new contract authority for surface transportation programs—most of which have their outlays controlled by annual appropriation action (as noted above)—and by providing some new spending authority that is <u>not</u> subject to appropriation action. CBO estimates that enacting S. 1072 would increase outlays from direct spending by $2.6 billion over the 2004-2014 period, but most of that new spending would come from provisions not directly related to the surface transportation programs. Table 3 details the effects on levels of transportation contract authority, and Table 4 shows the effects on all direct spending under the act.

Federal-Aid Highway Program. CBO estimates that S. 1072 would provide $254.5 billion in contract authority, a form of mandatory budget authority, for the Federal-Aid Highway program over the 2004-2009 period. By comparison, the previous highway authorization act known as TEA-21 (the Transportation Equity Act for the 21st Century) provided about $178 billion in contract authority for the Federal-Aid Highway program over the 1998-2003 period (excluding $9.2 billion that was added under the RABA provisions of TEA-21).

The level of contract authority in S. 1072 includes $216.4 billion of contract authority specified in the act as well as an estimated $38.1 billion of contract authority from the Equity Bonus program specified in the act. The Equity Bonus program would provide additional contract authority to ensure that each state receives a share of the total level of contract authority provided to all states for certain programs, equivalent to 95 percent of that state's share of tax receipts to the highway trust fund. (The Equity Bonus program would provide additional contract authority; however, it would not affect the obligation limitations specified in the act.)

The Balanced Budget and Emergency Deficit Control Act specifies that an expiring mandatory program with current-year outlays in excess of $50 million be assumed to continue at the program level in place when it is scheduled to expire. Following that rule, under S. 1072, CBO projects $15.3 billion in additional contract authority for the highway program each year beginning in 2010 (just as the current-law baseline projects about $42 billion a year for surface transportation programs). CBO assumes, however, that most spending from the highway program would continue to be controlled by annual limitations on obligations in appropriation acts and that the outlays would therefore be discretionary.

CBO's current baseline projects an annual level of contract authority for the Federal-Aid Highway program of $35.2 billion and a total level of contract authority for those programs of $387.7 billion over the 2004-2014 period. Thus, for the highway program, S. 1072 would provide $119.3 billion in contract authority above the baseline level over the 2004-2014 period.

TABLE 3. ESTIMATED EFFECTS ON CONTRACT AUTHORITY UNDER S. 1072

	By Fiscal Year, Budget Authority in Millions of Dollars										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Baseline Funding for Surface Transportation and Hazmat Safety Programs	42,343	42,343	42,343	42,343	42,343	42,343	42,343	42,343	42,343	42,343	42,343
Proposed Changes:											
Federal-Aid Highway Program	3,437	4,247	5,534	6,193	8,334	15,257	15,257	15,257	15,257	15,257	15,257
RABA Adjustment to the Federal-Aid Highway Program	0	0	46	0	0	-414	0	0	0	0	0
Highway Traffic and Motor Carrier Safety Programs	345	365	406	446	501	529	529	529	529	529	529
Transit Programs	-623	753	1,115	1,542	2,282	3,063	3,063	3,063	3,063	3,063	3,063
Total Changes:	3,159	5,365	7,100	8,181	11,117	18,435	18,849	18,849	18,849	18,849	18,849
Funding for Surface Transportation and Hazmat Safety Programs Under S. 1072	45,502	47,708	49,443	50,524	53,460	60,778	61,192	61,192	61,192	61,192	61,192

TABLE 4. ESTIMATED EFFECTS ON DIRECT SPENDING UNDER S. 1072

	By Fiscal Year, in Millions of Dollars										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CHANGES IN DIRECT SPENDING											
Contract Authority for Surface Transportation											
Estimated Budget Authority	3,159	5,365	7,100	8,181	11,117	18,435	18,849	18,849	18,849	18,849	18,849
Estimated Outlays	0	0	0	0	0	0	0	0	0	0	0
Hazmat Safety Fee-Funded Programs											
Budget Authority	0	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	-26	-15	0	2	7	12	11	5	4	0
Efforts to Combat Tax Evasion											
Budget Authority	100	100	100	100	100	100	100	100	100	100	100
Estimated Outlays	38	90	100	100	100	100	100	100	100	100	100
Payments in Lieu of Tax Credits											
Estimated Budget Authority	0	105	115	116	117	119	121	38	0	0	0
Estimated Outlays	0	105	115	116	117	119	121	38	0	0	0
Excise Tax on Certain Distilled Spirits											
Estimated Budget Authority	78	82	20	0	0	0	0	0	0	0	0
Estimated Outlays	78	82	20	0	0	0	0	0	0	0	0
Effect of Biodiesel Tax Changes on Farm Programs											
Estimated Budget Authority	0	-32	-2	0	0	0	0	0	0	0	0
Estimated Outlays	0	-32	-2	0	0	0	0	0	0	0	0
Expiration of Special Tax Treatment for Ethanol											
Estimated Budget Authority	0	0	0	0	0	0	0	19	32	54	66
Estimated Outlays	0	0	0	0	0	0	0	19	32	54	66
Studies Related to Highway Finance											
Budget Authority	18	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	2	2	2	3	5	3	1	0	0	0

Continued

TABLE 4. ESTIMATED EFFECTS ON DIRECT SPENDING UNDER S. 1072 Continued

	By Fiscal Year, in Millions of Dollars										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CHANGES IN DIRECT SPENDING (Continued)											
Spending of Conservation-Related Excise Taxes											
Estimated Budget Authority	0	0	-4	-4	-5	-5	-5	-6	-7	-7	-7
Estimated Outlays	0	0	-1	-3	-4	-5	-5	-5	-6	-7	-7
Spending of Certain Fee Collections											
Estimated Budget Authority	5	5	5	5	5	5	5	5	5	5	5
Estimated Outlays	5	5	5	5	5	5	5	5	5	5	5
Spending of Monetary Judgments											
Estimated Budget Authority	0	4	4	4	4	4	4	4	4	4	4
Estimated Outlays	0	4	4	4	4	4	4	4	4	4	4
Crime Victims Fund											
Estimated Budget Authority	1	1	1	1	1	1	1	1	1	1	1
Estimated Outlays	1	1	1	1	1	1	1	1	1	1	1
Enforcement Commission											
Estimated Budget Authority	0	1	1	1	1	1	0	0	0	0	0
Estimated Outlays	0	1	1	1	1	1	0	0	0	0	0
Installment Agreements											
Estimated Budget Authority	1	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	1	0	0	0	0	0	0	0	0	0	0
Hepatitis A and Influenza Vaccine Provisions											
Estimated Budget Authority	10	37	40	41	42	42	42	44	45	45	45
Estimated Outlays	10	37	40	41	42	42	42	44	45	45	45
Total Changes:											
Estimated Budget Authority	3,371	5,668	7,380	8,445	11,382	18,702	19,117	19,054	19,029	19,051	19,063
Estimated Outlays	133	269	270	267	271	279	283	218	186	206	214

RABA Adjustment to the Federal-Aid Highway Program. S. 1072 includes provisions known as Revenue-Aligned Budget Authority, or RABA, that would make annual adjustments to the obligation limitations and the level of contract authority specified in the act based on receipts to the highway account of the Highway Trust Fund. S. 1072 includes estimates of receipts to the highway account, and each adjustment under the act's RABA provisions would be determined by comparing the estimates in the legislation to the Administration's most recent estimates when the adjustment occurs. If the act's estimates of revenues are lower than the current estimates, there would be an automatic increase in the level of contract authority provided by the act. If however, the act's estimates of revenues are greater than the current estimates, then there would be an automatic decrease to the level of contract authority provided by the act; however, the act would not lower the level of contract authority if balances in the highway account exceed $6 billion. (The balance for that account stood at about $13 billion as of September 30, 2003.)

Based on CBO and JCT estimates of receipts to the highway account under S. 1072, and based on our projection of balances in the highway account under the act, CBO estimates that the RABA provisions of S. 1072 would increase the level of contract authority for 2004 by $46 million and decrease the level of contract authority by $414 million in 2009. Because there is significant uncertainty about the future levels of highway tax receipts, annual RABA adjustments could differ dramatically from those estimates.

Highway Traffic and Motor Carrier Programs. CBO estimates that S. 1072 would provide $6.6 billion in contract authority for certain highway traffic and motor carrier safety programs over the 2004-2009 period, and CBO projects another $1.2 billion in contract authority for those safety programs each year beginning in 2010. CBO assumes, however, that spending from the safety programs would continue to be controlled by annual limitations on obligations in appropriation acts and would therefore be discretionary.

CBO's current baseline projects an annual level of contract authority for all highway traffic and motor carrier safety programs of $662 million and a total level of contract authority for those programs of $7.3 billion over the 2004-2014 period. Thus, for those safety programs, S. 1072 would provide $5.2 billion in contract authority above the baseline level over the 2004-2014 period.

S. 1072 includes a provision to ensure that motor carrier safety programs would receive not less than 1.21 percent of the total amounts made available each year from the Highway Trust Fund. The funding levels under S. 1072 would provide the motor carrier programs with slightly less than 1.21 percent of this total. For this estimate, CBO assumes that the Administration would lower funding for other programs in order to provide the motor carrier programs with 1.21 percent of total funding levels. This assumption is based on the section of the committee report that describes how this provision is intended to work.

Transit Programs. S. 1072 would provide $46.7 billion in contract authority for transit programs over the 2004-2009 period, and (following the baseline projection rule in law) CBO projects another $9.5 billion in contract authority for those programs each year beginning in 2010. (By comparison, TEA-21 provided about $27.3 billion in contract authority for transit programs over the 1998-2003 period.) CBO assumes that spending from the transit programs would continue to be controlled by annual limitations on obligations in appropriation acts and that the outlays would therefore be discretionary.

CBO's current baseline projects an annual level of contract authority for transit programs of $6.4 billion and a total level of contract authority for those programs of $70.8 billion over the 2004-2014 period. Thus, for transit programs, S. 1072 would provide $23.4 billion in contract authority above the baseline level over the 2004-2014 period.

Hazmat Safety Programs. Under current law, DOT collects fees from shippers and carriers of hazardous materials. The department also provides grants to emergency responders for training and planning activities related to the transportation of hazardous materials. CBO estimates that DOT will collect and spend about $14 million each year over the 2004-2014 period for this activity. S. 1072 would increase that amount to $28 million each year; however, because the department is likely to collect the increase in fees at a different rate than it will spend the increase, CBO estimates those changes would decrease direct spending by $41 million over the 2005-2006 period and then increase direct spending by the same amount over the 2007-2013 period. In total, CBO estimates that the net impact of changes to the fees and grants would not be significant over the next 10 years.

Combating Tax Evasion. For each year beginning in fiscal year 2004, S. 1072 would provide $50 million to the IRS and $50 million to FHWA to combat tax evasion. CBO estimates that enacting those provisions would increase direct spending by about $1 billion over the 2004-2014 period.

Payments in Lieu of Tax Credits. Certain producers of alcohol and biodiesel fuel mixtures and users of neat alcohol and neat biodiesel fuels would be unable to use the tax credits that S. 1072 would establish. In lieu of the tax credits, S. 1072 would provide payments to those producers and users. The payments for ethanol would expire after December 31, 2010, and the payments for biodiesel would expire after December 31, 2006. CBO estimates that providing payments instead of tax credits would increase direct spending by $731 million over the 2004-2014 period; however, because it also would increase revenue collections by the same amount, this provision would have no net impact on the federal budget.

Excise Tax on Distilled Spirits. Under current law, a tax of $13.50 per proof gallon is assessed on distilled spirits produced in or brought into the United States. The treasuries of Puerto Rico and the Virgin Islands receive $10.50 of the tax assessed on rum manufactured in either territory. In addition, the territories receive payments at a similar rate on all rum imported into the United States from any foreign country.

Under S. 1072, the governments of Puerto Rico and the Virgin Islands would receive payments of $13.25 per proof gallon for assessments made between January 1, 2004, and September 30, 2004, and $13.50 per proof gallon for assessments made between October 1, 2004, and December 31, 2005. Those payments are recorded as outlays in the budget. Based on recent tax and payment data, CBO estimates that increasing the territories' share of the excise tax will increase direct spending by $180 million over the 2004-2014 period.

Effect of Biodiesel Tax Credits on Farm Programs. Because of the act's incentives to produce biodiesel fuels, JCT and CBO have estimated that the commercial use of those fuel mixtures would increase. Because the vegetable oil in the mixtures is expected to be primarily derived from soybeans and a few other oilseeds, the price of those commodities would increase. Higher commodity prices would result in lower costs of farm price-support and income-support programs administered by the Department of Agriculture. CBO estimates the increase in the demand for soybeans and other sources of vegetable oils stemming from S. 1072 would reduce federal spending by $34 million over the 2005-2006 period. This provision would expire after 2006.

Expiration of Special Tax Treatment for Ethanol. Under current law, most revenues from motor fuel taxes are deposited in the Highway Trust Fund. The Balanced Budget and Emergency Deficit Control Act requires CBO to assume that the federal government will continue to collect tax receipts that are earmarked for a trust fund even if those taxes are scheduled to expire. In addition, the tax on gasohol is currently lower than the tax on gasoline. S. 1072 would replace this lower tax rate with a tax credit paid from the general fund of the Treasury. The tax credit would expire after December 31, 2010. Under S. 1072, CBO's baseline would not assume extension of the excise tax credit after 2010.

Expiration of the excise tax credit for alcohol fuels in the act would result in increased spending on federal farm income payments after 2010. Because the ethanol in gasohol is primarily derived from corn, the demand for corn will fall if demand for ethanol is diminished. CBO expects that the higher after-tax price of alcohol fuels resulting from expiration of the tax credit in 2010 would reduce ethanol demand and corn prices. As a result, CBO estimates that spending for federal farm price and income support payments to farmers would rise by $171 million over the 2011-2014 period.

Studies Related to Highway Finance. S. 1072 would provide $1 million for Montana State University to assess ways that industrialized nations finance highway construction and $16.5 million for the University of Iowa to test the use of on-board computers for assessing taxes based on actual highway use of individual vehicles over specific highways. CBO estimates those provisions would cost about $18 million over the 2005-2011 period.

Spending of Conservation-Related Excise Taxes. S. 1072 would eliminate or reduce excise taxes on certain fishing and hunting products, including archery equipment. Those taxes are currently deposited into the Aquatic Resources Trust Fund or the Federal Aid-Wildlife fund and are available in the year following collection for conservation grants. Based on information provided by the Joint Committee on Taxation, CBO estimates that the reduction in federal revenues under S. 1072 also would reduce direct spending by $43 million over the 2004-2014 period.

Spending of Certain Fee Collections. Under current law, FHWA collects fees from participants in classes held at the National Highway Institute and participants in the Transportation Infrastructure Finance and Innovation Act (TIFIA) program. Those fees cover a portion of administrative costs. S. 1072 would provide FHWA the authority to spend the fees without further appropriation. Based on information from FHWA, CBO estimates that the department will collect $4 million each year from participants in classes held at the National Highway Institute and $1 million each year from participants in the TIFIA program. CBO estimates that those provisions would increase direct spending by about $55 million over the 2004-2014 period.

Spending of Monetary Judgments. S. 1072 would provide DOT the authority to share monetary judgments pertaining to fraud in the federal highway and transit programs with state and local agencies. This provision would apply to judgments in criminal prosecutions as well as civil judgments. Under current law, monetary judgments that result from criminal prosecutions are deposited in the Crime Victims Fund and later spent. Civil judgments, however, are not spent under current law. The federal government received an average of $18 million each year in monetary judgments from civil cases in recent years. Because the federal government pays most costs associated with fraud investigations and generally requires states to provide only 20 percent of the total cost for most surface transportation projects, we expect that DOT would share 20 percent of such judgments with the states. Hence, CBO estimates that this provision would increase direct spending by $4 million each year beginning in 2005 and by $40 million over the 2005-2014 period.

Crime Victims Fund. S. 1072 would raise the maximum level of criminal penalties for violations of certain regulations concerning motor carriers, movers of household goods, and the transportation of hazardous materials. The act also would establish several new criminal penalties related to transportation safety violations. Criminal penalties are recorded in the budget as revenues, then deposited in the Crime Victims Fund, and later spent. CBO estimates those provisions would increase direct spending by $11 million over the 2004-2014 period; however, because an increase in criminal penalties also would increase revenue collections, the net impact of those provisions on the federal budget would be negligible.

Enforcement Commission. S. 1072 would establish a Motor Fuel Tax Enforcement Advisory Commission to monitor the collection of motor fuel taxes and make recommendations regarding the enforcement of the tax laws, regulations and legislation concerning revenues, and funding levels. S. 1072 would provide such sums as are necessary to pay for the commission's expenses, and the act would terminate the commission at the end of fiscal year 2009. Based on historical spending patterns of similar commissions, CBO estimates that enacting those provisions would increase direct spending by about $1 million a year or $5 million over the 2005-2009 period.

Installment Agreements for Tax Payments. Under current law, taxpayers can elect to pay their full tax liability through installments. S. 1072 would allow the IRS to enter into agreements for the partial payment of tax liabilities. That change would result in more installment agreements and additional revenue collections. The IRS charges a fee of $43 for each installment agreement, which it can spend without further appropriation. CBO estimates that allowing for the partial payment of tax liabilities would increase direct spending by about $1 million in 2004.

Unified Carrier Registration. S. 1072 would establish a new federal program for registering operators of motor carriers to replace existing programs at the state and federal levels. Under the new program, participating states would collect fees from motor carrier operators and transfer those fees to the federal government. The federal government would use the fees to provide grants to states for improving the safety of motor carriers. CBO estimates that the federal government would collect and spend between $25 million and $30 million each year under the new program; however, because the government is likely to spend the grants very quickly, CBO estimates that the net budgetary impact of this program would be insignificant.

Hepatitis A and Influenza Vaccine Provisions. S. 1072 would require buyers of Hepatitis A and Influenza vaccines to pay an excise tax on each dose purchased. Medicaid is a major purchaser of vaccines through the Vaccines for Children program, administered through the Centers for Disease Control and Prevention (CDC). CBO estimates that Medicaid purchases approximately half of the Hepatitis A and Influenza vaccines sold annually. Based on excise tax estimates provided by JCT, CBO expects that enacting the provision would cost the federal Medicaid program about $7 million in 2004 and $387 million over the 2004-2014 period.

Receipts from the tax would go to the Vaccine Injury Compensation Fund (VICF), which is administered by the Health Resources and Services Administration (HRSA). The fund uses tax revenues to pay compensation to claimants injured by vaccines. Once a vaccine becomes taxable, injuries attributed to its use become compensable through this fund. Based on information provided by HRSA and CDC, we assume there will be few compensable claims related to the Hepatitis A and Influenza vaccines. CBO estimates the provisions would increase outlays from the VICF by $3 million in 2004 and $46 million over the 2004-2014 period. Thus, we estimate that the net spending impact of those provisions would total $10 million in 2004 and $433 million over the 2004-2014 period.

Revenues

CBO and JCT estimate that S. 1072 would increase revenues by $45.5 billion over the 2004-2014 period, as shown in Table 5.

TABLE 5. ESTIMATED CHANGES IN REVENUES UNDER S. 1072

	By Fiscal Year, in Millions of Dollars										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CHANGES IN REVENUES											
Volumetric Ethanol Excise Tax Credit[a]	*	86	80	123	138	136	136	1,181	1,571	1,604	1,636
Fuel Fraud Prevention[a]	145	773	834	842	850	857	858	858	857	858	859
Excise Tax Reform and Simplification[a]	-84	-315	-347	-324	-318	-322	-329	-336	-343	-350	-355
Additional Changes to the Tax Code[a]	1,012	2,486	2,934	2,771	2,898	2,980	3,175	3,430	3,715	4,027	4,327
SIBS and TIFIA Programs[a]	-1	-3	-7	-10	-14	-17	-19	-20	-20	-20	-20
Civil and Criminal Penalties	1	1	1	1	1	1	1	1	1	1	1
Total Changes	1,073	3,028	3,495	3,403	3,555	3,635	3,822	5,114	5,781	6,120	6,448

NOTES: * = less than $500,000.

SIBS = State Infrastructure Banks; TIFIA = Transportation Infrastructure Finance and Innovation Act.

a. Estimate provided by the Joint Committee on Taxation.

Volumetric Ethanol Excise Tax Credit. JCT estimates that provisions in S. 1072 related to alcohol fuels and biodiesel would increase receipts by $6.7 billion over the 2004-2014 period.

Current law provides lower tax rates for alcohol-blended fuels than for gasoline. S. 1072 would repeal the reduced tax rates and replace them with a tax credit worth the same amount. This provision would help improve tax compliance, and so JCT estimates that it would increase revenues by $225 million over the 2004-2014 period.

The Balanced Budget and Emergency Deficit Control Act requires CBO to treat excise taxes dedicated to trust funds as permanent even if they expire during the baseline period. For this reason, CBO's current baseline assumes an extension of the reduced rates of taxation on gasoline blended with alcohol fuels beyond its expiration because it reduces amounts credited to the Highway Trust Fund. The excise tax credit for alcohol fuels that S. 1072 would provide, however, would not reduce amounts credited to the trust fund; therefore, JCT and CBO do not assume the credit would be extended. In comparison to CBO's current baseline, JCT estimates that those provisions would increase governmental receipts by $5.9 billion between 2011 and 2014 when the new tax credit would expire.

S. 1072 also would provide a new tax credit for the production of biodiesel, and the act would extend certain income tax credits for alcohol fuels that expire after December 31, 2007. JCT estimates that those provisions would lower revenues by $155 million over the 2004-2014 period.

Certain producers of alcohol and biodiesel fuel mixtures and users of neat alcohol and neat biodiesel fuels would have insufficient excise tax liability to use the tax credits that S. 1072 would establish. In lieu of the tax credits, S. 1072 would provide payments to those producers and users. The payments for ethanol would expire after December 31, 2010, and the payments for biodiesel would expire after December 31, 2006. JCT estimates that providing payments instead of tax credits would increase revenues by $730 million over the 2004-2014 period; however, because it would increase direct spending by the same amount, this provision would have no net impact on the federal budget.

Fuel Tax Fraud Prevention. S. 1072 contains numerous provisions that would help prevent fuel tax fraud, including a provision that would require aviation fuel taxes to apply at the terminal rack—the mechanism that transfers fuel from a pipeline or vessel to a truck or a train, rather than at the point where a producer or importer sells the fuel. In total, JCT estimates that the provisions in S. 1072 to reduce fuel tax fraud would increase revenues by $8.6 billion over the 2004-2014 period.

Excise Tax Reform and Simplification. S. 1072 includes provisions that would simplify and reform excise tax collections, including the repeal of certain taxes on railroad diesel and fuel used on inland waterways and the repeal of certain taxes related to distilled spirits, wine, and beer. In total, JCT estimates that the provisions in S. 1072 to simplify and reform excise taxes would reduce revenues by $3.4 billion over the 2004-2014 period.

Other Changes to the Tax Code. In addition to provisions related to alcohol fuels and biodiesel, fuel tax fraud prevention, and excise tax reform and simplification, S. 1072 includes many other changes to the tax code. JCT estimates that those provisions would increase revenues by $33.8 billion over the 2004-2014 period. Nearly half of the increase ($16.6 billion) would come from provisions clarifying the economic substance doctrine and related penalties. In addition to modifying the current test of economic substance for certain transactions, those provisions would alter certain existing penalties and create a new penalty related to accurately reporting certain transactions that result in tax avoidance.

Much of the remaining increase in revenues would result from providing consistent amortization periods of intangibles ($3.5 billion), altering the tax treatment of inversion transactions ($3.1 billion), imposing a limitation on transferring or importing built-in losses ($2.1 billion), and expanding the disallowance of the deduction for interest on convertible debt ($1 billion).

State Infrastructure Banks (SIBS) and TIFIA Programs. S. 1072 would expand the SIBS and TIFIA programs, and JCT estimates that those provisions would lower revenues by $151 million over the 2004-2014 period. Under current law, five states can use grants from the Federal-Aid Highway program to fund a state infrastructure bank. States use infrastructure banks to finance transportation projects by providing loans to local governments or repaying bonds. S. 1072 would extend that authority to all states. JCT estimates that this provision would increase the use of tax-exempt bonds and therefore decrease federal revenues.

For a project to receive credit assistance under the TIFIA program, current law requires the project's total cost to equal or exceed the lower of the following two amounts: $100 million or 50 percent of the state's grants from certain highway programs in the previous fiscal year. States can cover a portion of the remaining cost with tax-exempt bonds. S. 1072 would change the two amounts to $50 million and 20 percent of the state's highway grants. JCT estimates that enacting S. 1072 would increase the number of projects that receive credit assistance under TIFIA and, therefore, increase the use of tax-exempt bonds, reducing revenue collections.

Civil and Criminal Penalties. The act would raise the maximum civil and criminal penalty amounts imposed on individuals for violations of certain regulations relating to motor carriers, movers of household goods, and transportation of hazardous materials. In addition, the act would establish several new civil and criminal penalties for various other transportation safety violations. In total, CBO estimates that doing so would increase governmental receipts by $1 million in 2004 and about $11 million over the 2004-2014 period. Half of those amounts would result from civil penalties, and half would result from criminal penalties. Collections of civil penalties are recorded in the budget as revenues. Criminal penalties are recorded as revenues, then deposited in the Crime Victims Fund, and later spent, thus the net impact of the criminal penalties on the budget would be negligible.

PREVIOUS CBO ESTIMATES

On March 30, 2004, CBO transmitted a preliminary cost estimate for H.R. 3550, the Transportation Equity Act: A Legacy for Users, as reported by the House Committee on Transportation and Infrastructure on March 29, 2004. H.R. 3550 would provide different funding levels for the surface transportation programs, and the cost estimates reflect those differences.

On January 22, 2004, CBO transmitted a cost estimate for S. 1072, the Safe, Accountable, Flexible, and Efficient Transportation Equity Act of 2003, as reported by the Senate Committee on Environmental and Public Works on January 14, 2003. S. 1072 would extend the Federal-Aid Highway program, and the cost estimate included the cost of those provisions.

On January 16, 2004, CBO transmitted a cost estimate for S. 1978, the Surface Transportation Safety Reauthorization Act of 2003, as reported by the Senate Committee on Commerce, Science, and Transportation on November 25, 2003. S. 1978 would extend the programs authorized by NTHSA and FMCSA, and it would authorize appropriations for rail transportation programs and hazmat safety programs. The cost estimate for S. 1978 included the costs of those provisions.

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